Minimum Wage Review Committee

Dec 21, 2006

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Honourable Mark Parent
Minister of Nova Scotia Environment and Labour
5151 Terminal Road, 6th Floor
Halifax, Nova Scotia
B3J 2T8

Dear Minister Parent:

On October 30, 2003 Government approved legislation to establish a Minimum Wage Review Committee, and we are the members of the Committee: Rick Clarke, President of the Federation of Labour; Tom Patterson, past Executive Director of the Nova Scotia Nurses' Union; Sandra Rodd, VP Business Development, Canada- HealthMedia Canada Inc.; and Steven MacPherson, General Manager of Jack Astor's Restaurant.

The function of the Committee is to conduct an annual review of the minimum wage and submit to the Minister a report containing the recommendations of the Committee. This Committee has met regularly and has conducted the review by considering the following: economic theory; economic conditions and the impact of raising wages; Statistics Canada data such as Consumer Price Index, Average Industrial Wage, Low Income Cut Off, and a profile of minimum wage workers; trends in other jurisdictions; the changing value of minimum wage; and employers' fixed cost increases.

After careful consideration of the above, the Committee recommends the following increase to the minimum wage:

$ 7.60 regular rate effective	April 1, 2007 to March 31, 2008
$7.15 inexperienced rate effective	April 1, 2007 to March 31, 2008

It has been a pleasure conducting the review for the Department of Environment and Labour, and we look forward to your response.

Respectfully submitted by,

Rick Clarke

Steven MacPherson

Tom Patterson

Sandra Rodd

1. Background

In Nova Scotia, workers who are not covered by a collective agreement have their rights protected by the province's *Labour Standards Code*. The Code provides direction to employers and employees on a wide range of topics, including the minimum wage.

In October 2004, new laws were put in place to establish a Minimum Wage Review Committee. The Committee is composed of equal numbers of employer and employee representatives appointed by the Minister. The Code requires the Committee to conduct an annual review of the minimum wage and prepare a Report to the Minister containing the recommendations of the Committee. Thirty days after the Minister receives the Report it will be made public, and within 60 days of receiving the Report the Minister will publish a response.

Traditionally, the minimum wage rate has been set several months in advance, to ensure that businesses have time to plan and budget for the proposed increases. The rate may be set for one year, or more or less, which allows the Minimum Wage Review Committee to be more responsive to emerging issues.

In the Committee's first report, issued in March of 2005, it recommended an increase of $0.30 from $6.50 to $6.80 effective October 1, 2005, and a second increase from $6.80 to $7.15 effective April 1, 2006. This recommendation was implemented by the Government following a general consultation with stakeholders.

In this report, the Committee is recommending one increase of $ .45 to $7.60 effective April 1, 2007 to March 31, 2008. There is a value for employers to have the certainty of one increase over this fiscal period, and it makes it easier to budget and plan for the fiscal year. The rate for inexperienced workers would increase proportionately from $6.70 to $7.15.

The Committee has focused on several key issues in making its recommendations:

1. Whether there should be a separate minimum wage set for employees in the hospitality industry who serve liquor, and earn tips in addition to wages.

2. The concern about certain sectors of the Nova Scotia economy that are facing decreasing sales numbers, notably in the tourism and accommodation industry. This industry has declined in other parts of Canada as well, and this has been exacerbated by higher fuel costs and the higher Canadian dollar.

3. The changing, aging work force; the increased demand for workers in Nova Scotia, particularly in the skilled trades; and the trend toward out-migration to the western provinces, where there has been a strong growth in sustainable jobs. In the recent

NS Community College Report to the Community, dated December 2006, economist Fred Morley notes that the projected wave of employment growth combined with increased attrition due to the retirement of the baby boomers, will mean that by 2009 there will be a demand for 50,000 workers in Nova Scotia. While this demand will be primarily for skilled workers, the skills shortage is upon us, and it will mean that it will be harder to attract workers to minimum wage jobs.

4. Several recent studies have been completed for the Federal Labour Code review, notably those completed by Professor Morley Gunderson, Chair of the University of Toronto Economics Department. He estimates that for every 10% increase in the minimum wage, there is a 3% increase in the unemployment rate, mostly impacting youth employment. However, this impact is often buried due to other factors in the economy. Over time, employers make trade offs, substituting capital and equipment for labour. For this reason, the Committee has been cautious in its approach to increases, recognizing that there is no formal plan to assist employers who have predominantly minimum wage workers in their workforce. Many employers, for example in the food services industry, will have no option but to increases prices for services, however, other economic factors may offset some of these impacts.[1]

5. Certain initiatives both at the Federal and the Provincial level will have an impact in stimulating the economy, and lessen the impact of the minimum wage increase. The Federal Government has lowered GST by 1%, and there have been announcements in the Provincial budget of lowered income taxes for corporations. The announced EI premium reduction, and the impact of the Federal plan to split income tax for seniors should have a stimulating effect on the economy. The Liquor license levy of 3.5% will be removed effective January 1, 2007, which will have a positive impact on the food and beverage industry.

6. Other countries, such as Ireland, have used various economic strategies to increase the minimum wage and enhance employment growth.

   The Irish plan took minimum wage earners off the income- tax rolls and pumped more money into training, especially for new and transient workers. It increased welfare payments for those between jobs or unable to work. It increased support for drug cards, childcare, subsidized housing, transportation and heat. And it targeted economically depressed communities for government investment.

   The multifaceted approach was so successful the country of 4 million reached its 10-year target of cutting "consistent poverty" in half within five years. Since 2001, the Irish government has adopted action plans every two years to update the effort. Its most recent plan calls for cutting poverty to below 2 per cent by next year.[2] In January 2007, the Irish minimum wage will rise to 8.35 euros ($16 per hour Can.) and in July 2007 to 8.65 ($ 16.60 per hour Can.) and those on minimum wage will

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[1] http://www.fls-ntf.gc.ca/en/re-exsum-20.asp

[2] http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article_Type1&call_pageid=971358637177&c=Article&cid=1158702614840

not pay income tax.[3]

The committee agrees with the multifaceted approached taken in Ireland and strongly suggests that a similar approach be taken in Nova Scotia.

2. Principles to Consider

Three important principles to consider when setting the minimum wage are:

- maintaining fairness for the lowest paid members of our workforce;
- recognizing minimum wage and cost of living trends; and
- balancing the issues relative to economic competitiveness for industry.

3. Maintaining fairness for the lowest paid members of our workforce

The purpose of minimum wage legislation is to guarantee a minimum standard of pay. Traditionally, minimum wage legislation forms part of the response to the problem of low pay, and was developed to protect the most vulnerable workers.

In 2005, 26,700 employees worked for minimum wage in Nova Scotia. This represented less than 6.9% of the workforce in Nova Scotia, which in 2005, included 382,500 full and part time workers.

As important as a minimum wage increase is for those who are paid at the lowest level, an increase may be equally important to many more working Nova Scotians because the minimum wage acts as a benchmark wage. Employers, notably other low wage employers, tend to measure their pay scales against the minimum wage. Generally, as minimum wages rise so do other wage rates. Thus, in addition to 26,700 minimum wage earners, an additional 25,600 employees work for wages between minimum wage and $8 per hour. In total, 13.7 % of the workforce who earn between minimum wage ($7.15 per hour) and $8 per hour may be impacted by a minimum wage increase.

Committee members agree that minimum wage alone cannot fix the problems of the working poor. The cost of necessities and utilities, tax on these items, an increase in precarious employment (casual, part-time, self-employment), lack of well paid jobs, and the high cost of post-secondary education contribute to the concerns of the working poor. In addition to minimum wage, other strategies should help alleviate poverty: increases in the basic personal income tax exemption to put more money in the pockets of low income earners; education subsidies; affordable housing; and child care.

In 2006, the Federal Government lowered the GST rate by 1% and the Federal Basic personal exemption was $8,639 effective July 1, 2006. The lowest personal income tax rate was 15.5%.

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[3] http://www.rte.ie/business/2006/1129/wage.html

Although the Committee recognizes that other tools are also effective to combat poverty, the only tool within the Committee's mandate is the minimum wage. In order for minimum wage alone to effectively address poverty it would need to exceed the national average or perhaps even the highest minimum wage in the country. It is obvious that a committed and multi-focused approach is required to effectively combat poverty, similar to the approach taken by government with respect to deficit and debt reduction. Again, we encourage the Government to follow the multifaceted approach taken in Ireland to effectively combat poverty.

4. Recognizing minimum wage and cost of living trends

The minimum wage is a significant issue in Nova Scotia because many workers are employed at minimum wage or at rates very close to minimum wage. Many are in the part time work category, and are predominantly women. When recommending the minimum wage rate, the Committee considered, among other things, minimum wage rates across the country and cost of living trends within Nova Scotia.

The chart below shows the current minimum wage and projected increases across Canada, and the average rate of minimum wage projected for 2007.

Jurisdiction	**Effective Date**	**Wage Rate**
Alta	Sept 1, 2005	$7.00
BC	Nov 1, 2001	$8.00
Man	Apr 1, 2007	$8.00
NB	Jan 1, 2007	$7.00
	July 1, 2007	$7.25
NL	Jan 1, 2007	$7.00
NWT	Dec 23, 2003	$8.25
NS	Apr 1, 2006	$7.15
Nunavut	Mar 3, 2003	$8.50
On	Feb 1, 2007	$8.00
PEI	April 1, 2007	$7.50
Que	May 1, 2006	$7.75
Sask	Mar 1, 2007	$7.95
Yukon	May 1, 2006	$8.25
Average		**$7.74**

* Labour Program –HRSDC Canada, www.hrdc-drhc.gc.ca/psait_spila/lmnec_eskc/salaire_minwage/report1/inde...

The following chart illustrates changes to the minimum wage in the Atlantic region:

Jurisdiction	2002	2003	2004	2005	2006	2007
New Brunswick	$6.00	$6.00	$6.20	$6.30	$6.70	$7.00*
						$7.25*
Newfoundland	$5.75	$6.00	$6.00	$6.25	$6.50	$7.00
	$6.00				$6.75	
Nova Scotia	$6.00	$6.35	$6.50	$6.80	$7.15	
Prince Edward Island	$6.00	$6.35	$6.50	$6.80	$7.15	$7.50*

*NB to increase Jan 1, 2007 and July 1, 2007

* PEI to increase April 1, 2007

Newfoundland will raise the minimum wage from $6.75 per hour to $7.00 effective January 1, 2007. In Prince Edward Island the minimum wage is currently $7.15, similar to Nova Scotia, however, it is scheduled to increase to $7.50 on April 1, 2007. New Brunswick increased the minimum wage from $6.30 to $6.70 effective July 1, 2006.

The new Government in New Brunswick has just announced two increases in the minimum wage for 2007, which will total 8%. The new Government had promised to bring the minimum wage rate in New Brunswick to a level that would enable a single person living on one income and residing in a metropolitan area to earn enough to lift the wage-earner out of poverty. The new Government's platform had also pledged to introduce programs to assist small businesses to adjust to the increase in minimum wage. The Committee supports this type of assistance and recommends that Nova Scotia look to introduce similar programs that would assist small businesses.

In recent years, Nova Scotia's minimum wage has kept pace with Prince Edward Island and has been slightly ahead of New Brunswick and Newfoundland. By July 1, 2007 the national average minimum wage will be $7.74 per hour.

5. Minimum wage compared to average wage

One figure that is used to measure the minimum wage is its relationship to the average wage. This allows for some comparison between differing economies.

In Nova Scotia the average wage in November 2006 was $16.95 per hour (Stats Can average hourly wage table). With the current minimum wage of $7.15, the ratio is 0.421. Based on concerns that too high a ratio will lead to lower employment levels, the Quebec government uses a ratio of 0.47 as a working maximum for determining the minimum wage.

Canadian figures for the ratio range from a high of 0.461 in PEI and .447 in Manitoba, to a low of 0.383 in Ontario and 0.324 in Alberta (where the average wage is the highest in Canada and the minimum wage among the lowest. However, a very low percentage of Albertan employees work at minimum wage; 2% as opposed to 6.9% in Nova Scotia.)

According to Morley Gunderson, Canadian minimum wages are at the low end of the international spectrum for developed economies as a ratio to the average wage.

6. Cost of living & the Consumer Price Index

Another consideration in setting the minimum wage rate is the cost of living in Nova Scotia. Cost of living analysis requires looking at the following two measures: the Consumer Price Index (CPI), and Low Income Cut Off (LICO), also known as the poverty line.

The CPI is a measure of the level of inflation, and inflation is the general increase in prices and the fall in the purchasing power of money. It measures how much the price

of a basket of consumer goods has changed over a given period of time. The major components of the basket are: food, shelter, household operations and furnishings, clothing and footwear, and transportation. One method of determining minimum wage, which is only used in the Yukon, is to index it to CPI. Indexing is a system of economic control in which certain variables (such as wages and interest) are tied to the cost of living index so that both rise and fall at the same rate. When this happens, the detrimental effect of inflation is, in theory, reduced.

In Nova Scotia, the annual percentage change in the CPI between 2000 and 2006 is as follows:

CPI for NS By Year	% Change
2000	3.5%
2001	1.8%
2002	3%
2003	3.4%
2004	1.8%
2005	2.8 %
2006 to July	2.2%

Nova Scotia Department of Finance Website.

The Royal Bank predicts that CPI for NS will be around 2.4% for 2006 and will lower to 1.3% in 2007. Scotiabank reports that inflation in Canada is "subdued".[4]

In its most recent report dated October 2006, the Royal Bank noted that the Canadian all-items index fell 0.5% in September 2006, with the year-over-rate at 0.7%, the lowest rate since May 2004, mainly due to falling gasoline prices.[5]

Stats Can published a Fact Sheet on Minimum Wage in September 2005, and found that "*almost 2/3rds of minimum wage workers lived with their parents or another family member, reflecting the large number under 25, many still in school.*"

The report also noted that "*minimum wage work is concentrated in the service sector. Accommodation and food services industries had by far the highest incidence, with 1 in 5 workers at or below minimum wage. Trade also had high rates-1 in 11. These industries are characterized by high concentrations of youth and part time workers, who tend to have less work experience and weaker attachment to the labour force. These industries often do not require specialized skills or a postsecondary education, and have lower rates of unionization. The many part-time jobs tend to favour the presence of women.*[6]"

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[4] Scotiabank Group, Economic Directions, November, 2006
[5] Royal Bank Economics, Market Update, Oct 20, 2006 at www.rbc.com/economics/market/daily_e.html
[6] Perspectives on Labour and Income, Fact Sheet on Minimum Wage, Statistics Canada, Sept 2005

7. Low Income Cut Off Levels

The low income cut off is a measure of poverty which takes into consideration the number of family members and the population size of the area in which the family resides. It is established by using data from the Survey of Household Spending which measures the income required to pay for the essential basket of goods and services which includes food, clothing, shelter, transportation, health care and personal care, recreation, and education. The idea is that if a family spends more than approximately one half of it's income on food, clothing and shelter the family is living under difficult circumstances, and has little money left over to purchase transportation, health care and personal care, recreation, education, and so forth.

The low income cut off for a single person living in Halifax in 2005 was $20,778 before-tax. Assuming 2000 hours of work annually (40 hours per week for 50 weeks), a single employee needed to earn $10.38 per hour to meet the before-tax low income cut off in HRM. Statistics Canada distinguishes between urban and rural areas because the poverty line is lower in rural areas. In rural Nova Scotia the cut off may be as low as $14,303 for an individual which means that the hourly rate of pay should be $7.15 in order to meet the poverty line.[7] The average cut off is $17,406 which means that the average hourly rate of pay ought to have been $8.70 in 2005.

Before-Tax Low-Income Cut-Offs (LICOs), 2005

	Population of Community of Residence				
Family Size	**500,000 +**	**100,000-499,999**	**30,000-99,999**	**Less than 30,000***	**Rural**
1	$20,778	$17,895	$17,784	$16,273	$14,303
2	$25,867	$22,276	$22,139	$20,257	$17,807
3	$31,801	$27,386	$27,217	$24,904	$21,891
4	$38,610	$33,251	$33,046	$30,238	$26,579
5	$43,791	$37,711	$37,480	$34,295	$30,145
6	$49,389	$42,533	$42,271	$38,679	$33,999
7 +	$54,987	$47,354	$47,063	$43,063	$37,853

Notes: This table uses the 1992 base. Income refers to total pre-tax household income.
*Includes cities with a population between 15,000 and 30,000 and small urban areas (under 15,000).
Source: Prepared by the Canadian Council on Social Development using Statistics Canada's Low Income Cut-Offs, from *Low income cut-offs for 2005 and low income measures for 2004* Catalogue # 75F0002MIE.

8. Balancing issues relative to economic competitiveness

The purpose of exploring economic competitiveness is to determine, from a Labour Standards perspective, the cost of doing business in Nova Scotia. This means statutory payroll costs which include: vacation pay, statutory holidays, Employment Insurance, Canada Pension Plan, Workers' Compensation, and other miscellaneous categories, such as payroll taxes.

All jurisdictions, except Quebec, pay the same rates for Canada Pension Plan and Employment Insurance. Canada Pension Plan represents 4.95% of payroll and Employment Insurance is 2.77%. Vacation pay is 4%. Workers' Compensation

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[7] These calculations do not take into account the refundable GST credit, Canada Child Tax benefit, and the NS Child Tax Benefit for low income individuals and families.

premiums are higher than the national average, and are at $2.65 per $100 of assessment. Nova Scotia has the lowest number of statutory holidays in Canada. The *Labour Standards Code* presently provides 5 paid holidays. The national average is 7.85 paid holidays. Estimates of the cost of a public holiday range from 0.4% to 0.5% of payroll. Thus, Nova Scotian employees receive significantly less benefit from statutory holidays than most Canadian employees.

The Canadian Restaurant and Food Services Association website estimates that payroll taxes are about 40% of all taxes paid by food service operators. Canada Business (Gov of Canada website) estimates that staff benefits add between 10-30% above wages/salaries depending on benefits offered.

The Committee recognizes that many small businesses pay minimum wage, or close to the minimum, and that an aggressive increase in the minimum wage may not be readily absorbed.

In the Tourism Sector, there has been a decline in business throughout 2005 and 2006 that has had an impact on the bottom line for many in the hospitality industry. They were 5% down over the previous year in August 2006, and reported to be down 4% in 2005. In October 2006, there was 9% fewer US tourists visiting NS.

Despite this, the Royal Bank is predicting strong growth for NS. It estimates that in 2006 that real growth will be 2.6% and in 2007 real growth will be 2.4%. Scotiabank is predicting that real GDP will grow by 2.2% in 2007.

9. Tip Differentials

In two provinces, Ontario and Quebec there has been a tip differential system for many years. In all other jurisdictions, an employer must pay employees the applicable minimum wage rate without taking into account the tips that are received. The committee has approached this only from the perspective of servers who are serving liquor to the public.

The Canadian Restaurant and Foodservices Association defines tip differential as "essentially different minimum wage rates that recognize the greater earning potential of tipped employees.[8]

Section 2(u) of the *Labour Standards Code* defines "wages" to include salaries, commissions and compensation in any form for work or services measured by time, piece or otherwise, and includes compensation under Sections 37, 40, 41, 46, 50, 57, 58, 72 and 74 but does not include vacation pay and pay in lieu of vacation under Sections 32, 33 or 34 or gratuities. The effect of this provision, and the absence of any other explicitly governing tips, is that they are not regulated by Labour Standards. Therefore, pooling or sharing of tips fall outside regulatory authority.

In Ontario, liquor servers may be paid $6.95 per hour and the general minimum wage rate is $8.00. In Quebec, employees who receive tips may be paid $6.85 per hour and

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[8] http://www.crfa.ca/issues/bytopic/minimumwage.asp

the general minimum wage rate is $7.75. An employer cannot impose the sharing of tips among employees or intervene in any way in the establishment of a tip sharing arrangement

Under legislation in Quebec, when calculating indemnities related to reporting for work, statutory holidays, the National Holiday, annual leaves, bereavement, marriage and notice of termination of employment, the employer must take into account the wages increased by tips which the employee reported or which the employer attributed to him.

The Act respecting Labour Standards requires that the employer accept the statement of tips made by the employee and protects the employee against any reprisals that an employer may take against him by reason of the exercise of his rights.

The relevant different for employers and employees in Quebec is that employment insurance and the Quebec Pension Plan is provincially controlled which allows the province to control whether contributions are based on total income, including tips. Employees would be motivated to properly declare tips because it would impact both their EI amounts and QPP benefits in the longer term. Outside of Quebec, employees can not increase contributions to Canada Pension Plan or Employment Insurance (impacts maternity & compassionate care leave income) because the programs are federally regulated. In addition to the Federally regulated plans like CPP and EI, there are a number of employee related benefits that are tied to income that have to be considered when examining the potential impact of tip differentials. These include but may not be limited to Workers' Compensation, long term disability plans, disability loan insurance, employer pension plans, and registered retirement savings plans.

Wages for NS Food and Beverage Servers(Stats Can 2005)
Average Wages with Reported Tips

Average Hourly Earnings	2000	2001	2002	2003	2004	2005
Total	8.21	8.51	8.36	9.09	9.54	9.31
Full-time	8.67	8.87	8.56	9.54	9.49	9.96
Part-time	7.69	7.91	8.11	8.54	9.58	9.04

The wages appear to be above the minimum wage at the current time. If a tip differential system came into effect, employees who work in the food and beverage service industry, who served liquor, would have a separate minimum wage, and tips would account for the increase in minimum wage. Other changes would be needed to legislation to define tips and to set out a process for ensuring fairness in their consideration in wages.

The Committee recognizes that this group of workers is in a different position than other workers who do not have the ability to work in areas that generally receive some form of extra income in the form of tips. However, the Committee could not reach consensus on the issue of whether this should be a factor in determining minimum wage and notes that there would have to be legislative change to accommodate a tip differential. The Committee has not made any recommendation for change with respect to tips. It has agreed the issue should be studied over the coming year as it reviews the minimum wage for 2008. With a large percentage of workers in the food service industry, it is an area that needs closer study and detailed recommendations in order to implement.

Recommendations:

1. **The recommended increase to $7.60 is an increase of 6.3%.** This means a real increase to the minimum wage for Nova Scotian employees, well above the rate of inflation.

   The recommended increase to $7.60 would bring the ratio of the minimum wage to the current average wage to 0.448, about the same level as Manitoba. This ratio would be lower by the time that the increase was implemented and would continue to decrease, assuming that average wages continue to increase. Wages increased by 3% from November 2005 to November 2006. Assuming the same increase in the coming year, the ratio would be 0.435 in December 2007.

2. **The recommended minimum wage rate for inexperienced workers is to increase from $6.70 to $ 7.15 effective April 1, 2007 to March 31, 2008.**

3. **The Committee recommends that the Province review programs to assist small businesses to adjust to increases in minimum wage.**

4. **The Committee recommends that the Province adopt a multifaceted approach like the one used in Ireland in dealing with the problems of the working poor.**